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11 January 1983

NOTE FOR: SA/DCI/IA

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FROM: Acting Director, Office of External Affairs

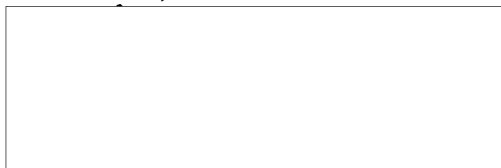
SUBJECT: Harry Rowen's Testimony Before the Joint Economic Committee

1. Here are the materials we discussed regarding Harry Rowen's testimony before the JEC. While some of the early reporting reflects mainly the Proxmire press release, the more thoughtful coverage is more balanced and reflects an analysis of the statement itself. See the New York Times article by Bernie Gwertzman, the AP article by Barton Reppert, and the Reuters item, all attached.

2. We have had no inquiries (except to request Rowen's statement), but are prepared to say we believe the Proxmire release emphasizes only one theme from the statement which covers several important points such as... (We would take these from the list provided by Rowen in his attached note.)

3. We see no need to initiate an attempt from this Office to "correct the record" based on the reporting we see. While the points emphasized are understandably not the ones Rowen would highlight, it is obvious the reporting is based on the statement and not just on Proxmire's release.

Attachments:
As Stated



25X1

7 January 1983

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

FROM : Henry S. Rowen
Chairman, National Intelligence Council

SUBJECT : My JEC Testimony

1. Regarding my JEC Testimony, Proxmire's staff director apologizes for the press release which has already been distributed, says that the lead is intended to be Proxmire's statement not a quote from mine, and that they will make this clear.

2. I told him that the impression created by the press release was very misleading and that this was bad business especially right after Rep. Reuss' distorted statement on the earlier CIA publication on the Soviet economy. He said that they would encourage the press to read my testimony which was short and readable.

3. I didn't say that we might put out a statement of our own depending on the press treatment of my testimony. If we decide to, a copy of what Public Affairs might say is attached.



Henry S. Rowen

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cc: DDI
AD/OEA

Possible Public Affairs Statement

In his press statements accompanying the release of testimony by Henry Rowen, Chairman of the National Intelligence Council, on the Soviet economy, Senator Proxmire chose to emphasize one theme: the self reliance and strength of the Soviet economy. The testimony, in fact, presented a more complex picture:

- The marked slowdown in the Soviet economy in recent years.
- Despite this slowdown, the continued increases in Soviet military forces.
- The underlying strengths of the Soviet economy, its size, access to natural resources, strength of its human capital assets.
- The importance of Western imports in relieving critical shortages even though, as a whole, the Soviet economy is highly self sufficient.
- The much harder choices faced by the Soviet leadership among consumption, investment and defense.
- The Soviet economy is not going to collapse, only grow very slowly.

We encourage the press to read the full statement.

C.I.A. Says Soviet Can Almost Do Without

By BERNARD GWERTZMAN

Special to The New York Times

WASHINGTON, Jan. 8—The Central Intelligence Agency, in a study of the Soviet economy, concludes that the Soviet Union's ability to live without imports is much greater than that of most, possibly all, other industrialized economies.

The report, delivered to the Joint Economic Committee of Congress on Dec. 1 by Henry Rowen, chairman of the C.I.A.'s National Intelligence Council, seems to support the argument that American trade embargoes against the Soviet Union have only limited effect.

The Reagan Administration has sought to tighten Western controls on trade to the Soviet Union to bring political pressure on Moscow, a policy often at odds with European allies and with some American businessmen.

Capital, Technology and Food

The C.I.A. report said that for the last decade the Soviet Union has used trade with the West to help modernize its economy and make it more efficient. It said that the Russians had relied on imports of capital and technology to increase or maintain production of some raw materials and that food imports had "become critical" to maintaining a quality diet.

Imports of grain and other agricultural products, it said, meant primarily to prevent a decline in meat consumption, cost the Russians \$12 billion in 1981, or 40 percent of their hard-currency purchases that year.

But Mr. Rowen said that "despite the large-scale expansion in agricultural imports, the Soviet Union remains basically self-sufficient with respect to food."

He said the average Soviet citizen consumes about 3,300 calories a day, as against 3,520 for an American. The report showed that the Soviet diet consists of far more grain and potatoes than the American diet, but less fish and meat and less sugar. And Mr. Rowen said that grain production in the Soviet Union "is more than sufficient to meet consumer demand for bread and other cereal products."

The report said trade with the West amounted to only 5 percent of the Soviet gross national product. But it seemed to agree with some Administration policy makers when it said the Russians would have to import 15 million to 20 million tons of steel pipe in the next seven years to build the pipelines it has planned, and will need "sophisticated" exploration equipment for its oil and natural gas fields. The Administration has tried to block those exports in particular, provoking feuds with Western governments that have contracted to provide the equipment.

An Ability 'to Remain Viable'

Imports from the West, Mr. Rowen said, "can play an important role in relieving critical shortages, spurring technological progress and generally improving Soviet economic performance." But he added that "the ability of the Soviet economy to remain viable in the absence of imports is much greater than that of most, possibly all, other industrialized economies."

"Consequently," he concluded, "the susceptibility of the Soviet Union to economic leverage tends to be limited."

The Soviet Union has always put great emphasis on self-sufficiency. This dates from the earliest days after the 1917 revolution, when most foreign countries did not recognize the Soviet regime, and it continued as a result of the isolation the country experienced in World War II.

Mr. Rowen's report was prepared at the request of Senator William Proxmire, Democrat of Wisconsin. The Senator, who is vice chairman of the subcommittee on international trade, finance and security economics, had asked for "a balanced assessment" of the strengths and weaknesses of the Soviet economy.

This was the second C.I.A. report in a month to point out strengths in the Soviet economy.

Imports

Mr. Rowen said the C.I.A. agreed with Mr. Proxmire that "confusion surrounding the Soviet economy abounds."

"Western observers have tended to describe Soviet economic performance as 'poor' or 'deteriorating' at a time when Soviet defense spending continues to rise, overall Soviet gross national product in real terms continues to increase and Soviet G.N.P. is second in size only to that of the United States," he said, noting the apparent contradictions.

As a result of recent declines in the rate of growth, the gap between performance and expectations, and the lack of economic efficiency, "the record compiled by the Soviet economy in recent years has indeed been poor," he said.

"Results that are unsatisfactory when measured by this yardstick, however, do not mean that the Soviet economy is losing its viability as well as its dynamism," the C.I.A. official said.

"In fact, we do not consider an economic 'collapse' — a sudden and sustained decline in G.N.P. — even a remote possibility," he said.

The C.I.A. projects, he said, that Soviet economic growth "will remain slow but positive," averaging 1 to 2 percent "for the foreseeable future," although per capita consumption might level off or drop slightly.

Energy Production Rises

Mr. Rowen said that natural gas production had continued to increase at a rapid rate, 8 percent in 1982, and that energy as a whole was increasing, with oil up by about 1 percent and coal 2 percent in the past year. The Russians have also improved their trade with the West, cutting their deficit from \$4 billion in 1981 to \$2 billion in 1982.

The Soviet gross national product in 1982 was estimated at \$1.6 trillion, or \$6,000 per capita, roughly 55 percent of the American gross national product.

The C.I.A. estimated Soviet gold reserves at 200 million troy ounces, giving it 35 percent of the world total. Production in 1981 was estimated at 325 tons and its stock at about 1,900 tons, worth over \$25 billion at current prices.

The report said a major weakness in the economy was the declining growth of the work force, with only 9 million expected to join in this decade as against 19 million in the 1970's.

Agriculture remains the weakest link. Grain production achieved a record high of 237 million tons in 1978 but has not reached 190 million tons since then. The report also highlighted problems in poor administration, bottlenecks in industry, an overworked railroad system and depletion of many mineral reserves.

ASSOCIATED PRESS
8 JANUARY 1983

CIA SEES NO ECONOMIC COLLAPSE IN SOVIET UNION
By BARTON REPPERT
WASHINGTON

The Central Intelligence Agency does not consider an economic collapse of the Soviet Union "even a remote possibility," a senior CIA official says in declassified testimony released Saturday.

The judgment by Henry Rowen, chairman of the spy agency's National Intelligence Council, was less harsh than those about the Soviet economy by President Reagan and other administration officials, but Rowen also defended the administration view that the Soviet economy is "deteriorating."

He said in testimony Dec. 1 before a subcommittee of Congress' Joint Economic Committee that Soviet economic growth has "slowed markedly" in recent years, forcing harder choices by the Kremlin leadership on how to allocate money for military and civilian uses.

He still concluded, however, that signs of Soviet economic weakness do not mean the country's economy is losing its "dynamism."

In releasing a declassified version of Rowen's testimony, Sen. William Proxmire, D-Wis., vice chairman of the subcommittee on international trade, finance and security economics, stressed aspects of the CIA assessment pointing to basic strengths of the Soviet economy.

"One of the worst things we can do is to underestimate the economic strength of our principal adversary," Proxmire said. He contended that "the Soviet Union is perhaps the most self-reliant industrialized nation."

Release of Rowen's testimony came two weeks after the Joint Economic Committee issued a massive CIA study analyzing growth and development of the Soviet economy over the past three decades.

The study found that overall Soviet economic output grew roughly four-fold from 1950 to 1980, at an average rate of 4.7 percent a year, although the economy has been in "a strong growth slide" since the late 1960s.

Rep. Henry S. Reuss, D-Wis., who is retiring as chairman of the Joint Economic Committee, said the CIA study "helps put into perspective for Americans the fact that the U.S.S.R., far from being on the verge of collapse, has experienced major growth."

Proxmire's and Reuss' comments appeared to be aimed at countering arguments by hard-line Reagan administration officials that the Soviet Union is in dire economic trouble and thus should be vulnerable to Western economic sanctions.

Reagan himself said last May that "the Soviet empire is faltering because it is rigid — centralized control has destroyed incentives for innovation, efficiency and individual achievement."

He also stressed "the decay of the Soviet experiment" and the "deep economic difficulty" of the U.S.S.R. in an address two months later before the British Parliament.

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2.

In his remarks, Proxmire noted that "the Soviet Union has been weakened by such harmful developments as the inefficient performance of the farm sector and the heavy burden of defense."

At the same time, he said, "it is the world's second largest economy in terms of GNP (Gross National Product), has a large and well-trained labor force, is highly industrialized, and possesses enormous reserves of natural resources, including oil and gas and the relatively scarce minerals and precious metals."

Rowen, in his testimony, defended Western characterizations of Soviet economic performance as "poor" or "deteriorating" at a time when Soviet GNP is continuing to rise.

"Given past rates of economic growth, the gap between Soviet performance and plans and expectations, and the marked departure from standards of economic efficiency, the record compiled by the Soviet economy in recent years has indeed been poor," the CIA official said.

But he added: "Results that are unsatisfactory when measured by this yardstick, however, do not mean that the Soviet economy is losing its viability as well as its dynamism."

"In fact, we do not consider an economic 'collapse' - a sudden and sustained decline in GNP - even a remote possibility," Rowen told the panel.

He said CIA analysts "expect annual growth to average 1 to 2 percent for the foreseeable future. Per capita consumption could level off or even fall slightly."

The 1 to 2 percent figure contrasts with annual growth rates of Soviet GNP averaging about 6 percent during the 1950s, 5 percent during the 1960s and 4 percent between 1970 and 1978.

Rowen testified that the Soviet Union is "highly self-sufficient" because of its abundant natural resources.

"Imports, particularly from the West, can play an important role in relieving critical shortages, spurring technological progress and generally improving Soviet economic performance," the CIA official said.

He added, However, "The ability of the Soviet economy to remain viable in the absence of imports is much greater than that of most, possibly all, other industrialized economies. Consequently, the susceptibility of the Soviet Union to economic leverage tends to be limited."

REUTERS

8 JANUARY 1983

WASHINGTON

The CIA today sounded a new warning to Western policy makers that it would be a mistake to underestimate the economic strength of the Soviet Union.

That is the principal message in previously secret CIA testimony to the Joint Economic Committee of Congress. The testimony was made public today.

"We do not consider an economic collapse -- a sudden and sustained decline in (the Soviet) gross national product -- even a remote possibility," testified Henry Rowen, chairman of CIA's National Intelligence Council.

It was the second report from the Central Intelligence Agency in the last two weeks that portrayed the Soviet economy as generally self-sufficient and growing, although at a slower rate than in recent years.

The views of the CIA's Soviet experts run counter to the publicized Reagan administration perception of the Soviet Union as militarily strong but an economic cripple.

Rowen acknowledged an "unusual amount of confusion" in official circles and among the public as to the strengths and weaknesses of the Soviet Union.

Western observers, he noted, have pictured the Soviet economy as deteriorating at a time of a rapid defense buildup despite the continued Soviet economic growth.

He did not mention a CIA analysis of the Soviet economy during the 1970's when the agency predicted Moscow would be a net oil importer, rather than exporter, in the 1980's.

In the last two years, the CIA has reversed itself on this point.

Rowen said the CIA believed the Soviet economy would be growing at a slow rate and predicted a growth of one to two per cent "for the foreseeable future."

Soviet growth averaged 4.6 per cent annually from 1950 through 1981, faster than the United States, which grew 3.4 per cent a year, according to the CIA.

Since 1978, however, there has been a steady slowdown in the Soviet Union's yearly growth with 1981 economic activity rising about 1.5 per cent. This pace has paralleled a slowdown in growth rates of Western industrial countries.

The Soviet slowdown reflects four consecutive poor harvests but the CIA notes industrial performance has been slack too.

Some retarded growth is from inefficiencies and bottlenecks in the Soviet system that even its new leader, Yuri Andropov, will not be able to change, according to the CIA.

Rowen said Andropov's succession to power did not alter the CIA's view of economic prospects in the Soviet Union.

He also commented that Andropov's remarks to the Soviet Central Committee suggest no significant change in economic policy, indicating a cautious approach to economic reform.

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In its generally cautious view of the economic future of the Soviet Union, the CIA believes that if Andropov introduces major policy changes the forecast of one to two per cent growth could be off the mark, Rowen said.

He said growth could be faster, for example, if the Andropov regime has good harvests, reallocates money from defense to investment and consumer demands and improves productivity and efficiency.

On the other hand, he said slower growth would follow bad harvests, accelerated defense spending or any active unrest among the Soviet people.

Of the possibilities for a marked slowdown in economic growth, Rowen said widespread unrest, as in Poland, would hurt economic production the hardest.

"However, we consider such an eventuality unlikely," Rowen said.

"It would probably require a steep and prolonged drop in living standards in the first instance," he added. "Large scale labor disturbances might also occur if Andropov pursued with excessive zeal his promised campaign to impose greater discipline in the work place."

The testimony was requested by Sen. William Proxmire, a Wisconsin Democrat, who said the CIA report showed "the Soviet Union is perhaps the most self-reliant industrialized nation."

The Soviet Union probably has more ability than any other nation to remain viable in the absence of imports because of its vast raw materials, he said.

The CIA testimony said expanded Soviet demands for agricultural imports were intended mainly to prevent a decline in meat consumption and were not essential to maintaining an adequate quantity of food.

Proxmire agreed with a basic theme of the CIA report that the Soviet economy was viable.

"One of the worst things we can do is to underestimate the economic strength of our principal adversary," he said in an introduction to the report.

The first CIA report on strong Soviet economic growth was issued on Christmas.

Rowen acknowledged an "unusual amount of confusion" in official circles and among the public as to the strengths and weaknesses of the Soviet Union.

Western observers, he noted, have pictured the Soviet economy as deteriorating at a time of a rapid defense buildup despite the continued Soviet economic growth.

He did not mention a CIA analysis of the Soviet economy during the 1970's when the agency predicted Moscow would be a net oil importer, rather than exporter, in the 1980's.

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REUTERS
8 JANUARY 1983

STRENGTH-DIET

American and Soviet citizens eat about the same amount of food each day but the Soviet diet may be more nutritious.

According to a CIA report released today both nationalities may be eating too much for good health.

The CIA drew no conclusions about the nutritional makeup of the Soviet and American diets but commonly accepted U.S. health views suggest the Soviet diet may be slightly better.

According to the Central Intelligence Agency, an average Soviet citizen consumes 3,280 calories a day, compared to 3,520 calories for the American.

The average daily calorie intake in the Soviet Union is: grain products and potatoes, 44 per cent; sugar, 13 per cent; dairy and eggs, 11 per cent; fats and oils, 17 per cent; meat and fish, eight per cent, with seven per cent other products.

The American consumes daily: grain products and potatoes, 26 per cent; sugar, 17 per cent; dairy and eggs, 12 per cent; fats and oils, 18 per cent, meat and fish, 21 per cent, and six per cent other products.

Americans eat more meat and fish, more sugar, more dairy products and eggs, and more fats and oils and less grain than the average Soviet citizen, and consume more calories.

Generally held nutritional standards suggest individuals need fewer calories, less meat, less sugar and more grain to stay fit.

ARTICLE APPEARED
ON PAGE A-16NEW YORK TIMES
9 JANUARY 1983

Soviet Diet Standbys: Cereals and Potatoes

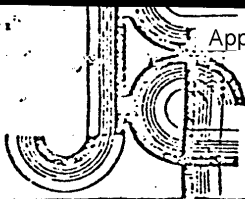
Special to The New York Times

WASHINGTON, Jan. 8—A study by the Central Intelligence Agency on the Soviet economy showed that the average Soviet diet contains far more grains and potatoes than the American diet and far less fish and meat.

The study, prepared for a committee of Congress, said the average Russian consumes almost the same number of calories a day as the average American, 3,300 for the Russian as against 3,520 for the American.

But grain cereals and potatoes make up 44 percent of the Russian diet, as against only 26 percent of what the average American eats, the study said. Meat and fish represent 21 percent of the American diet but only 8 percent of the Russian's diet, it said.

Otherwise, except for sugar, the diets are almost identical: Fats and oils made up 17 percent of the Soviet diet and 18 percent of the American; dairy products and eggs, 11 percent of the Soviet and 12 percent of the American; sugar, 13 percent of the Soviet and 17 percent of the American; other foods, 7 percent of the Soviet and 6 percent of the American diet.



PRESS RELEASE

97th Congress

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224-0363

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1982 - 117

EMBARGOED FOR RELEASE TO
6:00 P.M. SATURDAY, JANUARY 8, 1983

SOVIET ABILITY TO PROGRESS WITHOUT IMPORTS EXCEEDS OTHER INDUSTRIALIZED COUNTRIES

Washington, D.C. -- Senator William Proxmire (D-Wis.) today released a previously classified report which shows "the Soviet Union is perhaps the most self-reliant industrialized nation."

According to a report delivered last month to a Proxmire subcommittee hearing by a high-ranking Central Intelligence Agency official, "...the ability of the Soviet economy to remain viable in the absence of imports is much greater than that of most, possibly all, other industrialized economies."

The author of the report is Henry Rowen, Chairman, National Intelligence Council, CIA, who submitted the report at a closed hearing of the Joint Economic Subcommittee on International Trade, Finance, and Security Economics, of which Proxmire is Vice Chairman.

Proxmire said in a statement from his Washington, D.C., office, "Analysts in the West typically have focused on Soviet economic problems. The Soviet Union is our principal potential adversary. This is all the more reason to have accurate balanced assessments of the state of its economy."

"One of the worst things we can do is to underestimate the economic strength of our principal adversary."

Proxmire continued, "It needs to be understood that, while the Soviet Union has been weakened by such harmful developments as the inefficient performance of the farm sector and the heavy burden of defense, it is the world's second largest economy in terms of GNP, has a large and well-trained labor force, is highly industrialized, and possesses enormous reserves of natural resources, including oil and gas and the relatively scarce minerals and precious metals."

"It is sobering to reflect on the possibility that Soviet economic trends might improve rather than grow worse."

On Soviet trade, Rowen's report says, "Despite the large-scale expansion in agricultural imports, the Soviet Union remains basically self-sufficient with respect to food. These imports are intended mainly to prevent a decline in meat consumption and are not essential to maintaining an adequate quantity of food consumption."

"Despite the slowdown of the Soviet economy, we do not consider an economic collapse -- a sudden and sustained decline in GNP -- even a remote possibility."

The report concludes that the Soviet economy will continue growing slowly -- at an average rate of 1 to 2 percent for the foreseeable future, while per capita consumption could level off or even fall slightly.

Rowen's report says the consequences of the recent slowing of economic growth will have two major effects:

1. Soviet leadership will face much harder choices in allocating resources in consumption, investment, and defense.
2. There could be further invalidation of the USSR's claim that its economy is an appropriate model for the rest of the world, particularly the Third World.

The report also says, "Despite some experimentation with decentralized forms of economic administration, the Soviet leadership has remained firmly committed to strict central planning and management of most economic activity. The justification has been that rigorous centralization is required for fulfillment of national objectives."

"There are weaknesses in the Soviet economic system," the report states, "that even the new Andropov regime is not likely to change."

Copies of the report are available from the Publications Department, Joint Economic Committee, G-133 Dirksen Bldg., Washington, DC, 20510, or by calling (202) 224-5321.
